



JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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February 22, 2016

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: John Naimo
Auditor-Controller

SUBJECT: **PUBLIC SAFETY REALIGNMENT ACT (AB109) REVIEW –
DEPARTMENT OF MENTAL HEALTH – FISCAL YEARS 2013-14 AND
2014-15**

In October 2013, your Board directed the Chief Executive Office (CEO) to develop a schedule of recommended audits (Attachment II) for all departments that receive Public Safety Realignment Act (AB109) expenditure reimbursements. The Department of Mental Health (DMH or Department) was recommended, per our attached audit schedule, as one of the first departments for audit because their Fiscal Year (FY) 2013-14 AB109 funding budget of \$28 million was significantly higher than most departments' AB109 budgets. The schedule also identified that we review DMH quarterly in FY 2014-15 (with the frequency of the audits subject to the significance of previous audit findings).

This report covers both our FY 2013-14 and FY 2014-15 reviews. We combined the reports due to other high priority assignments being conducted concurrently. During the audits, we reviewed a sample of transactions from the first half of both FY 2013-14 and FY 2014-15 to evaluate the Department's internal expenditure controls over AB109 fiscal operations, and determined that AB109 funds were used to pay for the costs associated with the targeted AB109 population and related programs. However, we noted a minor issue during our FY 2013-14 review, where the Department did not implement a timely update of billing rates in their billing system for DMH staff services. The Department corrected this issue during our FY 2014-15 review. Details of our findings are included in Attachment I.

We discussed the results of our review with DMH management. The Department indicated general agreement with our findings. We thank DMH management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:PH:RS:MP

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Robin Kay, Ph.D., Acting Director, Department of Mental Health
Public Information Office
Audit Committee

**DEPARTMENT OF MENTAL HEALTH
PUBLIC SAFETY REALIGNMENT ACT (AB109) REVIEW
FISCAL YEARS 2013-14 AND 2014-15**

Background and Scope

The State establishes an annual amount of Public Safety Realignment Act (AB109 or Program) funding to the County. The County is required to use the Program's funding for services directed toward designated incarcerated individuals and post-prison release populations, such as certain categories of State parolees. AB109 transferred community reintegration and supervision responsibility for these parolees from the State to the County. The State provides funding on a monthly basis to the Auditor-Controller (A-C) who holds these funds in trust, and the Chief Executive Office (CEO) establishes annual AB109 funding budgets in consultation with each department, subject to Board of Supervisors' (Board) approval.

The CEO and A-C require departments to submit expenditure claims with their AB109 costs (i.e., salaries, employee benefits, applicable overhead rates, etc.) on a quarterly basis. The CEO and A-C then reimburse each department from the trust account up to their budget. Departments must use their net county cost for expenditures that exceed their annual AB109 funding budget unless the Board approves the use of AB109 reserves. In addition, any unused AB109 funds are retained in the trust account for future AB109 use.

In October 2013, the Board directed the CEO to develop a schedule of recommended audits for all departments that receive AB109 expenditure reimbursements. The Department of Mental Health (DMH or Department) was recommended, per our attached audit schedule (Attachment II), as one of the first departments for audit because their Fiscal Year (FY) 2013-14 AB109 funding budget of \$28 million was significantly higher than most departments' AB109 budgets. The schedule also identified that we review DMH quarterly in FY 2014-15 (with the frequency of the audits subject to the significance of previous audit findings).

This report covers both our FY 2013-14 and FY 2014-15 reviews. We combined the reports due to other high priority assignments being conducted concurrently. During the audits, we reviewed a sample of AB109 population data and expenditure transactions from the first half of both FY 2013-14 and FY 2014-15 to evaluate the Department's internal controls over AB109 operations. In addition, we determined that AB109 funds were used to pay for the costs associated with the targeted AB109 population and related programs. We noted a minor issue with their reported AB109 expenditures in FY 2013-14. Below are the detailed findings.

AB109 Funding and Cost Reporting

The California State Association of Counties (CSAC) determines the annual amount of AB109 funds allocated to each county based on negotiations between the CEO,

representatives from other counties, and CSAC. The CEO then works with each department impacted by AB109 to recommend their annual budgets. The State provides funding on a monthly basis to the A-C who holds these funds in trust until departments claim and receive their reimbursements. In FY 2014-15, the CEO implemented a quarterly reimbursement cap at 23% of each department's annual budget, with the remaining 8% allocated to year-end reimbursement. For FYs 2013-14 and 2014-15, the Department's AB109 budget was approximately \$28 million and \$32 million, respectively.

While reimbursements are limited to each department's AB109 budget, departments should report their actual costs regardless of the amount reimbursed. As detailed in Table 1, below, the Department's reported costs for FYs 2013-14 and 2014-15 were approximately \$31.3 million and \$20.4 million, respectively. As a result, the Department was underfunded in FY 2013-14 by approximately \$3.3 million, and had budget savings in FY 2014-15 of approximately \$11.6 million.

Table 1
Comparison of DMH's Budgeted and Actual AB109 Costs

	July to Sept. 2013	Oct. to Dec. 2013	Jan. to March 2014	April to June 2014 (2)	Total
Budget (1)	-	-	-	-	\$ 28,005,000
Reported Costs	\$ 5,713,277	\$ 8,996,456	\$ 8,536,662	\$ 8,043,749	\$ 31,290,144
Amount Overfunded / (Underfunded)	-	-	-	-	\$ (3,285,144)
					-12%

	July to Sept. 2014	Oct. to Dec. 2014	Jan. to March 2015	April to June 2015	Total
Budget (1)	\$ 7,367,130	\$ 7,367,130	\$ 7,367,130	\$ 9,929,610	\$ 32,031,000
Reported Costs	\$ 3,887,795	\$ 4,753,726	\$ 4,752,934	\$ 7,032,201	\$ 20,426,656
Amount Overfunded / (Underfunded)	\$ 3,479,335	\$ 2,613,404	\$ 2,614,196	\$ 2,897,409	\$ 11,604,344
	47%	35%	35%	29%	36%

(1) In FY 2013-14, DMH had an annual budget of approximately \$28 million, but did not have a quarterly cap amount. In FY 2014-15, the CEO implemented a quarterly cap on reimbursements of 23% of the annual budget, with an additional 8% reimbursed at year-end.

(2) The Department reported expenditures from April to June 2014 of \$8,043,749 that are comprised of \$2,282,681 incurred from April to June 2014 and unreimbursed expenditures of \$5,761,068 from FY 2012-13 as authorized by the CEO.

DMH management indicated that FY 2014-15 budget savings were primarily due to increased eligibility of services provided to AB109 individuals for Medi-Cal funds under

the Affordable Care Act, and due to delays implementing the new Gateways Normandie Village adult transitional residence program.

AB109 Population

In FY 2014-15, the Department provided mental health services to 1,284 clients as a result of AB109. We reviewed a sample of DMH's AB109 client records for FYs 2013-14 and 2014-15 and noted that these records adequately documented that they were part of the AB109 population.

DMH Staff Direct Services Cost

Mental health services are provided to clients by DMH staff and contracted service providers. These costs are tracked in an automated system, Integrated System (IS). Costs for mental health services provided by DMH staff are based on Board approved billing rates that are established by DMH annually.

We noted that the Department did not update the FY 2013-14 billing rates for DMH staff costs in IS timely. As a result, the Department over-reported direct service costs by approximately \$5,400 from July 1 through July 18, 2013. However, for FY 2014-15, we noted that the Department updated the billing rates in IS timely.



WILLIAM T FUJIOKA
Chief Executive Officer

County of Los Angeles
CHIEF EXECUTIVE OFFICE

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February 25, 2014

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in blue ink, appearing to read "W. T. Fujioka", is written over the printed name of the Chief Executive Officer.

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

**PUBLIC SAFETY REALIGNMENT: FIRST QUARTERLY REPORT ON BUDGET
AND PROGRAM PERFORMANCE MEASURES (ITEM 94-B, AGENDA OF
OCTOBER 8, 2013)**

On October 8, 2013, the Board of Supervisors directed the Chief Executive Officer to initiate quarterly budget and performance reports for the Public Safety Realignment Act (AB109), including:

- a) A summary of revenue and expenditures;
- b) Narratives to explain the variances between expenditures and budget;
- c) A comprehensive list of items that have been funded with one-time revenue, but require ongoing funding commitments; and
- d) Updates on programmatic priorities and achievements of stated outcomes.

In addition, the Board requested the development of a fiscal audit schedule and options to evaluate the AB109 programs and services delivered by County departments and community-based organizations.

REVENUE AND EXPENDITURES

The State's Fiscal Year (FY) 2013-14 Budget allocated \$338,130,000 to the County for AB109 programs and services. As of January 31, 2014, the County has received \$156,968,000 or 46 percent of the budget allocation.

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The Auditor-Controller (A-C) established trust accounts specifically for the remittance of AB109 funds from the State. Although funds are allocated to County departments, these funds remain in the trust accounts and are not distributed to the departments until the Chief Executive Office (CEO) and A-C approve quarterly claims for reimbursement of AB109 related costs. Claims are submitted during the month following the close of each quarter. Given the State's AB109 remittance schedule runs from a September through August calendar, compared to the County's fiscal calendar, a cap has been placed on the quarterly claims for cash-flow purposes. Any claims exceeding the quarterly cap will need to be absorbed by the department until the end of the FY; whereupon, any unreimbursed claims will be reconciled up to each department's annual AB109 budget allocation. Should a department's AB109 claims result in a fiscal year-end deficit, the CEO may recommend the Board utilize any remaining allocations from other departments or tap into the AB109 Reserve to make the department whole; otherwise, the department will absorb those AB109 costs within its regular budget.

For FY 2013-14 County departments have been reimbursed \$136,420,000 or 40 percent of the budget for AB109 claims submitted through January 31, 2014 (Attachment I). The second quarter claims for several departments are still pending CEO and A-C review prior to disbursement.

As reflected in Attachment I, the Probation Department (Probation) and Sheriff's Department (Sheriff) have exceeded their respective quarterly caps by a combined \$8,094,000. We anticipate Probation and Sheriff will end the FY with AB109 deficits; however, there may be savings in the other departments that may be used to mitigate AB109's impact on their regular budget.

PROGRAM DIRECTORY AND PERFORMANCE MEASURES

A comprehensive directory of AB109 programs, funded with ongoing and one-time funds, has been developed to report on each department's quarterly expenditures and progress toward meeting stated annual performance targets. The current quarterly report reflects the department's performance status as of January 1, 2014, and the first quarter reimbursed claims (Attachment II).

FISCAL AUDIT SCHEDULE

The A-C has concluded a preliminary review of each department, including interviewing department managers and staff and reviewing expenditure reports, claims, and supporting documentation. The A-C subsequently developed a list of five factors to evaluate the risk presented by each department: 1) the amount of budgeted AB109

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funding; 2) each department's internal controls and methodology for tracking and reporting expenditures; 3) the type of service provided; 4) the materiality of prior audit findings; and 5) the types of AB109 related expenditures incurred by each department.

Based on these audit factors, the A-C proposes the following fiscal audit schedule:

<u>FY 2013-14</u>	
January to March 2014	April to Jun 2014
Relative High Risk Departments: <ul style="list-style-type: none"> • Mental Health • Probation • Sheriff 	Relative Lower Risk Departments: <ul style="list-style-type: none"> • Alternative Public Defender • District Attorney • Executive Office of the Board (CCJCC and ISAB) • Fire • Health Services • Public Defender • Public Health
<u>FY 2014-15*</u>	
Quarterly Audits	Annual Audit
<ul style="list-style-type: none"> • Mental Health • Probation • Sheriff 	<ul style="list-style-type: none"> • Alternative Public Defender • District Attorney • Executive Office of the Board • Fire • Health Services • Public Defender • Public Health

* The audit schedule for each department is subject to FY 2013-14 audit findings.

INDEPENDENT PROGRAM EVALUATIONS

The Countywide Criminal Justice Coordinating Committee (CCJCC), in consultation with the CEO, is developing a Request for Statement of Qualifications (RFSQ) for criminal justice research and evaluation services. The RFSQ will be used to establish a Master Agreement list of vendors to provide independent expert consultant services. The Master Agreement list will be made available to all County departments and partner agencies to evaluate both AB109 programs and other criminal justice related programs.

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We had anticipated presenting the Master Agreement for Board approval in February 2014; however, some complications were encountered as to how departments would administratively access a CCJCC Master Agreement. These contract oversight issues are currently under review by the A-C and County Counsel. We will keep your Board apprised as we make progress toward releasing the RFSQ.

Should you have any questions, please have a member of your staff contact either Georgia Mattera, Public Safety, at (213) 893-2374 or David Turla, Public Safety, at (213) 974-1178.

WTF:GAM:SW
DT:llm

c: Executive Office, Board of Supervisors
County Counsel
District Attorney
Sheriff
Alternate Public Defender
Auditor-Controller
Fire
Health Services
Mental Health
Public Defender
Public Health
Probation